

## Latam FX: Lula knows best

It has been a good start to the year for Latam currencies. We continue to prefer the Mexican peso in the region, where its high risk-adjusted returns will remain in demand. The Brazilian real will probably win fewer friends. The Lula administration's desire to push the fiscal limits and get involved in monetary policy will not be greeted well by investors



President Luís Inácio  
Lula da Silva, São  
Paulo Brazil

Source: Shutterstock

### Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.10 →	18.75 ↓	775.00 →
3M	5.10 ↓	18.60 ↓	800.00 →
6M	5.20 ↓	18.50 ↓	825.00 →
12M	5.30 ↓	18/50 ↓	800.00 →

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding

market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

## USD/BRL: Health warnings attached

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.1524	Neutral	5.10	5.10	5.20	5.30

- USD/BRL is trading towards the lower end of its six-month trading range, but arguably should have been trading below 5.00 given the better global backdrop. Upward revisions to global growth – led by China and India – plus a sharp improvement in Brazil's terms of trade should have seen USD/BRL trading to 4.80.
- Yet the internal conflict between fiscal and monetary policy (between the government and the central bank) remains a concern. President Lula's administration wants to loosen fiscal policy and raise the inflation target – un-nerving investors.
- Should politicians interfere with the election of a new central bank board member in February, or should fiscal rules be loosened further, USD//BRL could easily trade to 5.30/40.

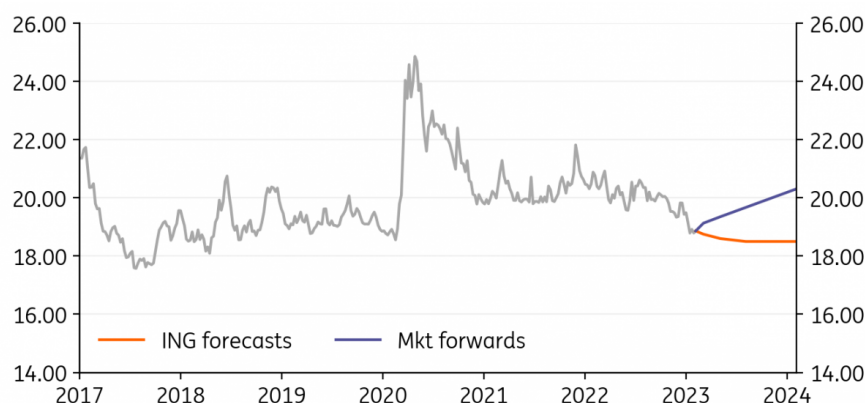


Source: Refinitiv, ING

## USD/MXN: Peso looks good

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	19.0540	Mildly Bearish <span style="color: red;">▼</span>	18.75	18.60	18.50	18.50

- USD/MXN has virtually unwound the entirety of the 2020/22 pandemic and energy supply shock to trade back close to the 18.50 lows. The very credible fiscal (Mexico 5-year CDS at 120bp vs. 233bp for Brazil) and monetary (real rates are +2%) situation are strong drivers for MXN demand.
- Banxico continues to match the Fed in its tightening cycle, meaning that the policy rate will be taken close to 11% by the end of the quarter. Not bad with inflation running at 8.5%. And as the market takes a greater interest in carry, 3m MXN implied yields at 11.40% provided very strong risk-adjusted carry.
- The Banamex sale or high US inflation pose the biggest threats.

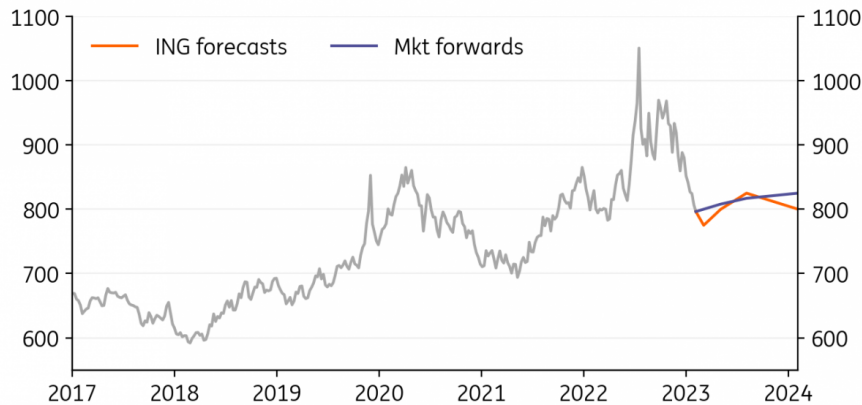


Source: Refinitiv, ING

## USD/CLP: CLP gains could run into reserve accumulation story

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	796.8500	Neutral	775.00	800.00	825.00	800.00

- A reset on our global macro and dollar view means we are having to revise down our USD/CLP forecasts significantly. A weaker dollar, better Chinese demand and now supply disruption in Peru is settling copper at stronger \$9,000-10,000/MT levels – helping CLP.
- Locally, the Chilean economy continues to rebalance after the excesses of 2021 – which created the huge current account deficit. Weaker domestic demand (GDP forecast at -1% this year) is helping the trade surplus back into a big positive.
- The reason we are not forecasting USD/CLP to return to the 700 area seen in summer 2021 is that we suspect it will want to take advantage of CLP strength and rebuild FX reserves. These halved last year as the central bank fought the peso crash.



Source: Refinitiv, ING

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